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Case 4:07-cv-05194-CW Document 78 Filed 07/24/2008

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[REDACTED] REPLY ISO LUMILEDS' MOTION FOR SUMMARY JUDGMENT (07-5194 CW)

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I. INTRODUCTION

Because Lumileds prevailed on its infringement claim in the ITC, Epistar is now precluded from asserting the breach of the covenant not to sue that it abandoned during that case. The parties' agreement to litigate the breach of contract issue included not only the claim itself, but Lumileds' defenses to that claim. Since Lumileds never waived issue-preclusion based on its subsequently prevailing in the ITC on the infringement issue, Epistar cannot now avoid preclusion by arguing that such a waiver was implied. Epistar's claim that an ITC determination on the covenant not to sue would not have been entitled to preclusion is also fundamentally flawed because the covenant involves a breach of contract and, thus, is not a patent-based determination.

Even if this Court decides to consider the breach of covenant claim on its merits, there is no dispute that Epistar's that Epistar's that Epistar described during the first litigation before this Court. Epistar's contrary representations regarding what it now calls its should be disregarded, as Epistar never disclosed these versions during the first litigation. Unlike its current contentions, Epistar withheld all information on these versions while telling this Court and Lumileds prior to settlement that it had fully described its OMA products in discovery. In view of Epistar's knowledge that Lumileds was relying on Epistar's descriptions of its OMA products as the basis for the products as the basis for the product of the product of the court should interpret the to be those described by Epistar in discovery because, even if Lumileds had made a "mistake" in relying on Epistar's discovery, Epistar was well aware of Lumileds' reliance.

The covenant itself and the history of its negotiation also undermine Epistar's attempt to , Lumileds'

motion for summary judgment on the covenant claim should be granted.

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II. LUMILEDS NEVER ABANDONED ITS ISSUE-PRECLUSION DEFENSE AND EPISTAR IS PRECLUDED FROM ASSERTING A BREACH OF THE COVENANT

A. Res Judicata Principles Apply To An ITC Determination On A Contract Issue, Such As The Covenant Not To Sue

Although determinations of the ITC regarding patent issues are not given preclusive effect because federal district courts have exclusive jurisdiction over patent issues, the same rule does not apply to contract issues such as Epistar's covenant-not-to-sue defense. Contract claims. unlike patent claims, do not "aris[e] under any Act of Congress relating to patents"; do not fall under the "original" or "exclusive" jurisdiction of the federal district courts; and thus are not "patent-based determinations." See 28 U.S.C. § 1338(a). Epistar's own papers demonstrate that the covenant defense was a contract issue, not an issue arising under the patent statute. Epistar's Opp. at 3; Complaint at 6; Epistar's Exh. A at 2 (e-mail from Y. Hu to D. Johnson of 08/06/2006, referring to the covenant issue as a "breach of contract.").

Telectronics properly recognized this distinction when it held that even though district courts have exclusive jurisdiction over patent infringement or invalidity, "[t]his does not mean ... that the federal courts have exclusive jurisdiction over all questions which in some way concern a patent." Telectronics Proprietary, Ltd. v. Medtronic, Inc., 687 F. Supp. 832, 846 (S.D.N.Y. 1988). A license or covenant not to sue is not a patent-based defense, but "a defense based on a contractual right to use the patent." Id. at 846 n.40. Thus, "[t]ribunals other than the federal courts have the authority to decide matters involving contracts relating to patents." *Id.* at 846.

In so holding, the *Telectronics* court properly found that reliance on *Tandon*, cited by Epistar, was "misplaced" because *Tandon* did not involve a license defense. *Id.* at 846 n.44, discussing Tandon Corp. v. Int'l Trade Comm'n, 831 F.2d 1017, 1019 (Fed. Cir. 1987). The other cases cited by Epistar are likewise inapposite because they all involved infringement, invalidity, or other patent-based issues that fall within the exclusive and original jurisdiction of the courts. See, e.g., Texas Instruments, Inc. v. Cypress Semiconductor Corp., 90 F.3d 1558, 1568-70 (Fed. Cir. 1996); Bio-Technology Gen. Corp. v. Genentech, Inc., 80 F.3d 1553, 1564 (Fed. Cir. 1996). Because there is no conflict among these cases, Telectronics remains good law.

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B. Lumileds Did Not Waive Any Defenses To Epistar's Assertion Of Its Claim For Breach Of The Covenant In This Court

Although Lumileds agreed not to pursue a ruling on the merits in the ITC, Lumileds never agreed to abandon any of its objections or defenses to Epistar's assertion of a breach of the covenant in a district court. Rather, both parties took a calculated risk in attempting to simplify the issues before the ITC. Lumileds bore the risk that it might not prevail before the ITC and, without a decision on the merits of the covenant-not-to-sue defense, would have been unable to prevent Epistar from raising this defense here. Epistar took the risk that if Lumileds prevailed in the ITC, then the covenant-not-to-sue defense would be precluded. Epistar must now live with the consequences of the deal it struck. Instead, Epistar now seeks to change the agreement to include a non-existent waiver of this preclusion.

With no evidence of any such waiver, Epistar resorts to attacking Lumileds' counsel by describing Mr. Johnson's remarks before the ALJ as "disingenuous." When Mr. Johnson told the ALJ, "We [Lumileds] couldn't stop them [from withdrawing that defense] in the first place, and we'll deal with it at such time as they raise it again" (Scher Decl., [D.I. 62] ("Scher") Exh. 4 (Hr'g Tr.) at 815:5-21), he was effectively reiterating what he had earlier told Epistar's counsel:

You raised [the covenant issue] If you drop the defense we will not pursue the issue in the ITC. If you rely on the Covenant we have to respond. Let me know what you decide.

Scher Exh. 5 (e-mail from D. Johnson to Y. Hu of e-mail of 08/06/06, at 10:31 p.m.). Lumileds honored its bargain by not pursuing its advantage in the ITC and now Epistar must honor its agreement permitting Lumileds to defend on any and all grounds.

As discussed in the opening brief, the Ninth Circuit, in the *Deutsch* case, declined to imply a waiver of an issue-preclusion defense where it was not expressly waived in the agreement of counsel. Contrary to Epistar's contentions, the boilerplate reservation of defenses in the *Deutsch* case does not distinguish it from the current situation. *Deutsch* v. *Flannery*, 823 F.2d 1361 (9th Cir. 1987). Here, it is undisputed that Lumileds' agreement to "litigate [Epistar's] claim of breach of contract in district court" included not only the claim itself, but also Lumileds' defenses to that claim. There is no justification for Epistar's demand that the Court imply an

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agreement to abandon an issue-preclusion defense based on Lumileds' prevailing on the merits of its infringement case in the ITC.

III. THERE IS NO DISPUTE THAT EPISTAR'S

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BY EPISTAR IN DISCOVERY

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The descriptions and comparisons of Epistar's OMA products in Lumileds' opening brief rest entirely on the interrogatory responses, deposition testimony, diagrams, and other information that *Epistar* produced in the previous litigations. Epistar's attack on Lumileds' description of the 2004 OMA LEDs is nothing more than an indictment of Epistar's own inaccurate testimony, attorney argument, and discovery responses in the first case before this Court. Epistar never identified or described the case, nor did it produce upon which it now relies, until almost two years after the covenant had been executed. As discussed below, Epistar should be estopped from challenging its own discovery responses that it knew Lumileds had relied upon in entering the Settlement Agreement. If Epistar is held to its discovery responses, there is no dispute that

A. There is no factual dispute that the

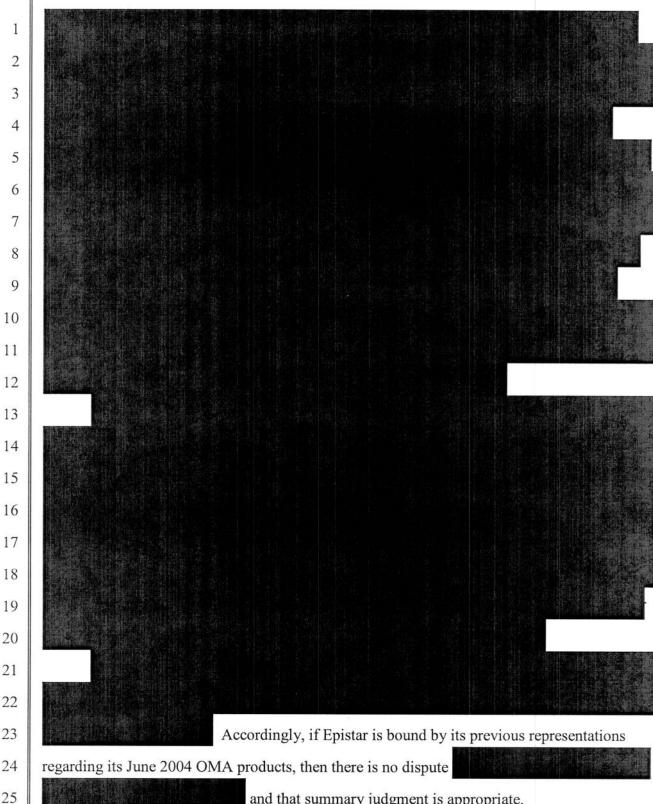
identified by Epistar in the first litigation

Setting aside Epistar's new contentions regarding the

Epistar does not dispute that Lumileds' description of the 2004 OMA products faithfully tracks Epistar's discovery responses in the first case and fairly compares these discovery responses with Epistar's characterization of the OMA I and II products at issue in the ITC. Epistar does not dispute that Lumileds based its description entirely on Epistar's representations and discovery in that first litigation. Lumileds is entitled to rely on those representations in its motion for summary judgment as admissions of a party-opponent.

Duff v. Lobdell-Emery Mfg. Co., 926 F. Supp. 799, 802-03 (N.D. Ind. 1996); King v. E.F. Hutton

& Co., Inc., 117 F.R.D. 2, 6 (D.D. C. 1987).



and that summary judgment is appropriate.

Epistar is bound by its admissions concerning the 2004 OMA product from B. the earlier litigation

Unable to contest Lumileds' summary of Epistar's own interrogatory responses in the first

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Procedure 26(e), 33, and 34, Epistar's assertion that it is not "bound by [its] prior unverified interrogatory responses and the testimony of its Rule 30(b)(6) witness, Dr. Jou" is particularly unfair and troubling.¹ Opp. at 11.

Epistar tries to explain away its failure to provide discovery by arguing that its duty to supplement was somehow suspended during the first litigation. To the contrary, although the parties stipulated to delay certain deadlines to pursue settlement, the parties continued to litigate the case through the effective date of the settlement in June 2004, including Epistar's filing of its claim construction brief on June 18, 2004. Lyons Exh. L. In fact, exhibits provided by both Epistar and Lumileds demonstrate that Lumileds continued to demand complete disclosure of Epistar's then-current OMA products and to file motions to compel, up to the very date the covenant was executed. *See, e.g.*, Epistar's Exh. E to the Huang Decl. (Letter from A. Wu to R. Weiss, Epistar's counsel, of June 14, 2004, requesting complete information on all OMA products); Scher Exh. 14 at 3-7 (Lumileds' motion to compel information on all OMA products).

Epistar cannot now create a genuine issue of material fact by contradicting its previous interrogatory responses or deposition testimony regarding the OMA products that existed as of June 2004 without some reasonable explanation for its change of position. *See Scamihorn v. Gen. Truck Drivers Local 952*, 282 F.3d 1078, 1085 n.7 (9th Cir. 2002); *Jack v. Trans World Airlines, Inc.*, 854 F. Supp. 654, 660-61 (N.D. Cal. 1994). This basic principle applies even to unsigned or unverified interrogatory responses and other admissions against interest in the earlier lawsuit. *See Kesmarki v. Kisling*, 400 F.2d 97, 102 (6th Cir. 1968). Thus, this Court should disregard Epistar's contentions regarding its and bind Epistar to its previous discovery responses regarding its June 2004 OMA products. If bound, there is no

Epistar further calls its own discovery into question by arguing that Lumileds unfairly "chose to use complete discovery", rather than Epistar's internal product structure design document" in its Motion. Epistar's Opp. at 10 n.4. First, Lumileds' opening brief relied primarily on the very specific interrogatory responses and mentioned only in passing in a footnote. Lumileds' Br. at 6. n.4. Second, is the very one Epistar referred to in opposition to Lumileds' motion to compel in the earlier litigation as proof that it had provided complete discovery.

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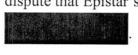
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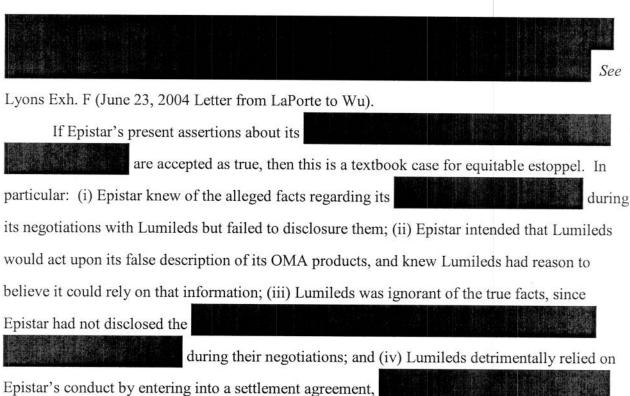
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Consequently, Epistar should be equitably estopped from changing its position in this litigation regarding the scope and structure of its June 2004 OMA products. Dickerson v. Colgrove, 100 U.S. 578, 580-81 (1880) (under equitable estoppel, "[s]uch a change of position is sternly forbidden" in order to prevent a party from "disappointing the expectations" of a party that has detrimentally relied upon the party's previous representations).

In addition, Epistar should be judicially estopped from "playing fast and loose with the courts" by making factual representations to gain an advantage over Lumileds in the first litigation, and then making inconsistent representations in the present litigation to gain another advantage. See Rissetto v. Plumbers and Steamfitters Local 343, 94 F.3d 597, 600-01 (9th Cir. 1996). Epistar has clearly taken inconsistent positions in the two litigations regarding its 2004 OMA products - those inconsistencies are the entire basis of Epistar's argument. There is also no dispute that Epistar's previous representations were the basis for, or important to,

See Remus v. Sheahan, 2006 WL 418654, at *11 (N.D. III. Feb. 16, 2006).

should be

1	interpreted as Lumileds understood it to mean when it executed the settlement agreement. Epistar			
2	now effectively argues that Lumileds was "mistaken" about the structure of Epistar's products.			
3	See Cal. Civ. Code § 1577 (mistake of fact). If so, the contract should be interpreted in			
4	accordance with Lumileds' understanding, not Epistar's. Merced County Sheriff's Employees'			
5	Ass'n. v. County of Merced, 188 C.A.3d 662, 673 (Cal. App. 1987) (contracts are interpreted			
6	according to the understanding of one of the parties if "that party has no reason to know of any			
7	different meaning attached by the other, and the other has reason to know the meaning attached			
8	by the first party.")			
9	Even assuming Epistar's current representations regarding the			
10	are true, this would only demonstrate that Epistar knew the structure of its own			
11	OMA products at the time the parties entered into the covenant not to sue. Lumileds, on the other			
12	hand, having no knowledge of that information, reasonably interpreted the term			
13	to refer to the products as they had been described by Epistar in its			
14	interrogatory responses and other discovery. Lumileds had no reason to know of any different			
15	meaning because Epistar withheld discovery regarding its			
16	For the same reason, and as documented in the parties' correspondence described above, Epistar			
17	knew of the meaning that Lumileds was attaching to the term			
18	result, even if Epistar were neither bound by nor estopped from challenging the accuracy of its			
19	discovery, the covenant should be interpreted or conformed to Lumileds' understanding that the			
20	were those that had been disclosed by Epistar. See Cal Civ. Code §§ 1577,			
21	1689, 3399; Merced County, 188 C.A.3d at 673.3			
22	IV. EVEN IF EPISTAR'S LATEST DESCRIPTIONS OF ITS OMA PRODUCTS ARE ACCEPTED, LUMILEDS IS STILL ENTITLED TO SUMMARY JUDGMENT			
23	BASED ON THE			
24	Even if this Court entirely accepts Epistar's new descriptions of its products, Lumileds'			
25				
26	To defeat Epistar's breach of contract claim, Lumileds merely seeks to confirm that the contract			

³ To defeat Epistar's breach of contract claim, Lumileds merely seeks to confirm that the contract cannot be interpreted differently than as understood by Lumileds at the time. Lumileds reserves the right to seek in the future any other remedies that may be appropriate, including rescission of the contract as a result of Epistar's deceptive conduct.

Unlike the hairsplitting proposed by Epistar, courts routinely equate "significant" and "substantial" differences. See, e.g., Boehringer Ingelheim Vetmedica, Inc. v. Schering-Plough Corp., 320 F.3d 1339, 1352 (Fed. Cir. 2003) (expert testimony that "any differences between the two are insignificant" supported verdict that infringing product was insubstantially different from claim); In re Application of Albrecht, 514 F.2d 1389, 1395 (C.C.P.A. 1975) (a "substantial, actual differences in properties . . . meaning a showing of no property in common, or a showing of significant difference in degree of a common property" was required to overcome prima facie obviousness). In fact, courts in a broad range of contexts use the terms "substantial" and "significant" interchangeably and ascribe the same meaning to both. See, e.g., Ward v. Rock against Racism, 491 U.S. 781, 799-800 (1989) (interchangeably referring to the government's prerequisite interest under a balancing of interests test as a "substantial government interest" and a "significant government interests"); Dr. Seuss Ent., L.P. v. Penguin Books USA, Inc., 109 F.3d 1394, 1398, n. 3 (9th Cir. 1997) (in copyright action, "[s]ubstantial similarity may be found whenever the works share significant similarity"); NLRB v. MacMillan Ring-Free Oil Co., 394 F.2d 26, 33, fn 6 (9th Cir. 1968) (for evidence of unfair labor practice to be "substantial" it must be "significant" or "not inconsiderable"); Atamirzayeva v. U.S., 77 Fed. Cl. 378, 383 n. 11 (Fed. Cl. 2007), discussing U.S. v. Verdugo-Urquidez, 494 U.S. 259 (1990) ("substantial" and "significant" used interchangeably to describe the substantial connections test for nonresident alien standing).

The record also flatly contradicts Epistar's assertion that "[g]iven the history of the

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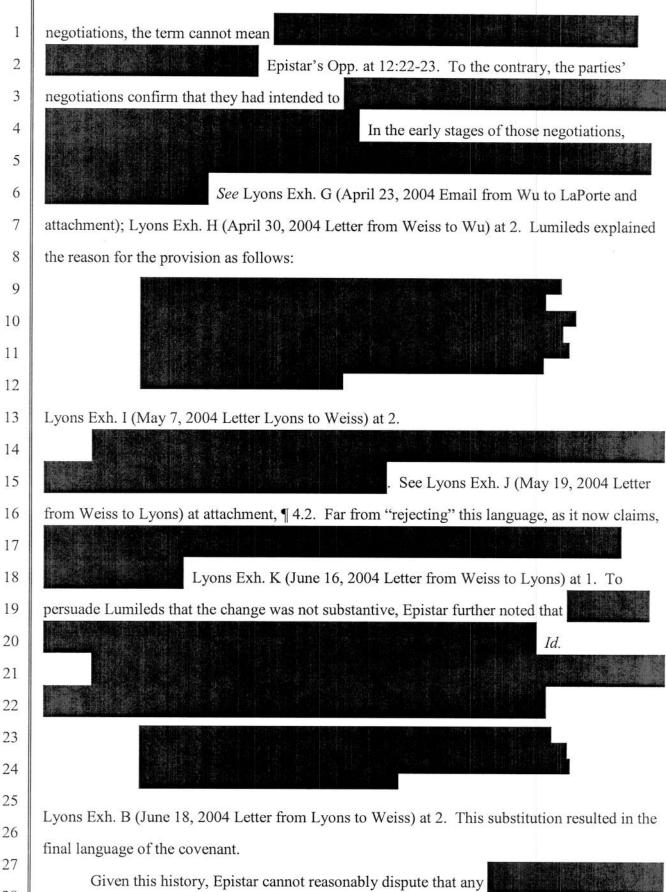
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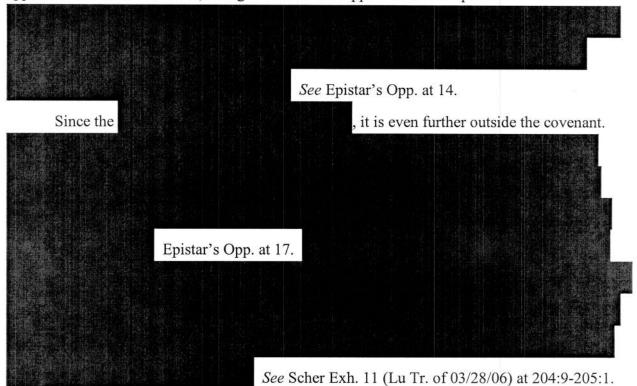
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at 14, citing Scher Exh. 11 (Lu Tr. of 03/28/06) at 256:25-257:10.

This admission is fatal to Epistar's claim.

See Scher Exh. 1, ¶ 4.2. Both of these changes would affect the visual

appearance of the LED. Thus, changes to the visual appearance of the products do constitute



V. CONCLUSION

Pursuant to the doctrine of claim preclusion, Epistar should be barred from assertion of breach of the covenant not to sue in this case. In the alternative, summary judgment should be entered that the covenant not to sue and the covenant should be dismissed.

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rationalizations are immaterial, as a party cannot create a genuine issue of material fact by contradicting statements in his previous deposition. *Darnell v. Target Stores*, 16 F.3d 174, 177 (7th Cir. 1994).

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